

ROUTING AND RECORD SHEET

SUBJECT: (Optional)

FROM:

Chief. PMCD

EXTENSION

NO.

DATE

18 January 1984

TO: (Officer designation, room number, and building)

DATE

RECEIVED

FORWARDED

OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

1.

DD/PA&E

18 JAN 1984

1/31

Bjc

Barbara,

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C/PMCD

15.

[redacted] and I discussed yesterday the briefing paper you requested on banding and the China Lakes experiment which supports that concept. Attached for your review is the result of Norm's work on this. I had asked Jim and Norm first to approach this subject by producing an outline with the idea that it could be turned into a formal paper for Mr. Magee. Before we proceeded further with any preparation of such a paper, I thought it might be worthwhile for you to review the outline to be sure we had covered the important aspects of the subject. I would especially appreciate your reaction to our comments regarding the advantages and disadvantages of selecting one occupational group over another for possible experimental purposes. I believe you indicated your preference for the engineers and scientists in S&T, and while we believe Ops Officers would provide a somewhat better group for the experiment, you may have some ideas which are not included here which would bear discussion in the paper.

Let's discuss

BRIEFING

A. Introduction

- A well-grounded pay system provides a positive response to four criteria:
 - . recruitment
 - . retention
 - . motivation
 - . easy to understand and administer
- Civil Service Reform Act (CSRA) of 1978 authorized five-year experiments in alternative pay systems within the Federal Government, with experiments to include up to 5,000 employees.
- In response to aforementioned criteria and CSRA, Navy began a demonstration project at China Lake and San Diego, California called "grade banding." This experiment has been successful and this past session Congress approved the extension of the five-year experimental period to a total of ten years.
- DOD has proposed legislation to broaden this Personnel Program to other agencies in the Executive Branch.

B. What is "Grade Banding"?

- Selectively bands several ranges together to create expanded pay ranges.
- This concept offers the following opportunities:
 - . managers are delegated pay administration responsibility
 - . budgetary controls replace average grade controls
 - . simplifies position classification process
 - . broader role for PMCD in area of position management
 - . will require a permanent cadre of classification/pay experts and expertise in organization development (position management)
 - . incorporates pay for performance program

C. Areas of the Agency which are conducive to "banding"

- DDO Operations Officers
 - Advantages
 - . homogeneous group with a well-organized career path from career trainee (CT) to journeyman and higher Operations Officer
 - . performance appraisal system centralized and very effective
 - . established timetable for progression through the ranks

- . Operations Officers is large enough group to obtain valid data
- . Group above Agency average grade so removal from average grade will result in net reduction of Agency average grade

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- Disadvantages

- . Will require an education program emphasizing the benefits of pay for performance versus the psychic income derived from frequent promotions

- DDA - Telecommunications Officers

- Advantages

- . homogeneous group centralized within a single parent organization
- . Telecommunications Officers is large enough group to obtain valid data
- . centralized evaluation system currently in place

- Disadvantages

- . Group is below Agency average grade; therefore removal from average grade will result in higher Agency average grade
- . psychological adjustment to pay for performance in place of current promotion policy

- DDS&T - Engineers and Scientists

- Advantages

- . High visibility group which formed basis of Navy experiment

- Disadvantages

- . No centralized evaluation system within DDS&T
- . Comprises only a relatively small portion of professional jobs within DS&T. Sigint officers, Tech Ops Officers, FBIS and NPIC Analysts not covered, causing a morale problem
- . Group too small for statistical evaluation
- . Positions exist outside DS&T which could be covered only if interdirectorate evaluation system is established

what is ideal

- DDI - Analysts

- Advantages

- . Group large enough for statistical evaluation

- Disadvantages

- . Analysts do not consider themselves to be a homogeneous group - e.g., Political Analysts, Economic Analysts, Scientific

STAT

Analysts, Imagery Analysts, and Geopolitical Analysts are independent of one another

- . "Grade banding" could have a negative impact on the Senior Analyst program which includes GS-14 through SIS-2 level

D. Agency Pay Studies

- Towers, Perrin, Forster & Crosby (TPF&C) conducted an Agency Pay Study wherein "grade banding" was among their recommendations.

E. Recommendation

- PMCD recommends development of a "Grade Banding" Pay Program for introduction and implementation on a staggered basis.
 - . Launch the program in DDO for Operations Officers followed by Commo - Telecommunications Officers
- PMCD will need to work closely with DDO and Commo in the development as well as in the implementation phases followed by careful monitoring during the experimental period.
- PMCD will require additional resources to conduct the three phases of this program.

*what resources
why
what are they*

SUBJECT: Background on Grade Banding

In 1979, two Navy research laboratories in California were faced with pay and artificial grade-level constraints which were impacting adversely upon their recruitment and retention of professional personnel. To overcome these handicaps, the Department of Navy developed a new personnel program as a Demonstration Project under the provisions of the Civil Service Reform Act of 1978. The underlying assumption of this program was that if managers were delegated responsibility for management of the personnel program and held accountable for decisions, many of the artificial constraints imposed as controls on the personnel system could be relaxed. To implement the program, several major changes were made to the General Schedule (GS) personnel system. First, the number of grade levels was reduced so that the pay ranges for two or more GS grades were compressed into a single level. Thus, each new level had a pay range of approximately 50 percent through which an individual could progress, as opposed to a 30 percent for the GS. Pay decisions within the levels were now based solely on performance using an objective-based performance appraisal not unlike the Agency system.

Recently the Agency has initiated a similar experiment with the Telecommunications occupation within the Office of Communications (OC). In the Agency experiment, five separate pay levels have been established covering entry level through senior management. Each level is divided into increments equal to approximately one half of a GS step increase. Based on performance, individuals may be awarded from none to four increments at each annual evaluation. All but employees performing at a marginal or unsatisfactory level will receive annual comparability increases.

In order to make the experimental system work, the Director of Communications has been delegated not only the pay decision authority, but also the accountability for money necessary to implement pay decisions. If a manager does not wish to differentiate among employees' performance, and inflates their performance appraisals to avoid conflict, then there will be insufficient payroll money to implement the recommendations. Experience has shown that this approach has been effective for Navy, and it is anticipated that it will be effective for the Agency.

The performance pay pool for OC is comprised of money which would have been used for within-grade pay increases, Quality Step Increases and promotions. The pool will be formed out of the personnel services budget.

An interesting factor which has been added to the Navy system, and which is included in the Agency proposal, is the performance bonus. This factor was added to allow steady performers who are at the top of a level, or who for some other reason may not be eligible for movement within a level, to receive a bonus equivalent to salary increments within the level.

The Agency experiment is planned for a period of five years. During this period, the DCI will decide whether to extend this pay system to other segments of the Agency.

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MEMORANDUM FOR:

Jim + Norm working on
paper to McGee + briefing
following mtg. w/ Barbara
on 10 Feb.

mm
mm
McKell -
ftr glade barling

Date

FORM 5-75 101 USE PREVIOUS EDITIONS